

MEMORANDUM FOR SERVICE ACQUISITION EXECUTIVES

DIRECTOR, DEFENSE LOGISTICS AGENCY

DIRECTOR, DEFENSE CONTRACT AUDIT

AGENCY

SUBJECT: Implementing More Efficient Oversight of Defense Contractors

A goal of acquisition reform is to improve contract administration within the Department of Defense. To that end, the Deputy Under Secretary of Defense (Acquisition Reform) chartered a Process Action Team to develop strategies and specific plans for improving contract administration processes and procedures. The team made several recommendations in the "Quality Contractors" chapter of its report that I subsequently approved. A discussion of those recommendations and actions to implement them are presented below.

Tailored Contract Administration Services

The Team recommended that Department of Defense oversight should be tailored based on a uniform risk assessment methodology (Recommendation 5-1). They argued that managers can optimize contract administration oversight services while maintaining a high level of customer satisfaction. Their risk assessment approach considered contractor performance in the context of customer requirements. The results of the completed risk assessment become a tool for making decisions regarding contract administration oversight and resource allocation. Oversight services can be delivered more efficiently and effectively when managers focus resources in areas where the risk for potential problems exists and the impact is significant. I agree with the team's conclusions. Therefore, I request DCMC and DCAA to continue to tailor oversight through proper risk assessment at Reinvention Laboratory pilot locations and to expand this "best practice" wherever possible. I request that the Director, DLA and the Service Acquisition Executives support these efforts.

Information Sharing and DoD Oversight

Our efforts to improve the efficiency of our acquisition policies and practices are beginning to pay significant benefits. The Process Action Team suggested in part, that we can improve our efficiency and effectiveness simply by doing a better job of obtaining and considering existing information before deciding that DoD oversight of contractor operations is necessary (Recommendation 5-2).

Their recommendations make good sense. This letter implements their recommendations by directing:

(1) DoD buying and technical activities to provide copies of relevant future reviews of

contractor operations, and other documents assessing or rating contractor performance or operations, to the cognizant contract administration office (see DLAH 4105.4, DoD Directory of CAS Components) within 30-days of completion. Release of classified and source selection sensitive information should be in accordance with agency procedures.

(2) The Defense Logistics Agency (DLA) to develop and implement within 120-days, a process for contract administration office collecting, storing, and accessing data received from government agencies and/or contractors relating to audits, reviews, or ratings of contractor operations, systems, or performance.

(3) All DoD oversight activities to revise their policies within 60-days to require that their personnel seek and consider all relevant and credible information that might mitigate risks and the need for DoD oversight, before designing and applying direct DoD oversight of contractor operations. Oversight activities are defined to include contract administration offices, contracting offices, technical activities, and program management offices.

The data assembled will provide additional information for contract administration offices' contractor risk assessments. The resulting risk assessments will permit contract administration offices to design oversight to counter perceived contract performance risks. By establishing contract administration offices as the focal points, the burden of data collection and storage efforts is maintained at a manageable level. This is a significant step toward re-engineering the acquisition oversight process and is consistent with other ongoing efforts to improve the collection and use of past performance data in all contexts -- risk assessment, cost estimating and performance reviews.

Implementation of Alternative Oversight Proposals

DoD contractors often express concern about the amount and degree of government oversight that they are subjected to during contract performance. One of the ideas generated by the PAT was a concept called Alternative Oversight Proposals (AOP). AOPs provide an avenue for contractors to recommend alternative methods of oversight. The process is further defined in the team's report.

Subsequent to the release of the PAT report, I signed a memorandum dated April 24, 1995, entitled, "Pilot Program to Evaluate/Demonstrate the Concept for a Single Quality Process in a Contractor's Facility." This program, under the auspices of the Defense Manufacturing Council, will provide contractors the opportunity to demonstrate where and why contractor controls are sufficient, and where discrete Government oversight is duplicative and unnecessary. I believe implementation of that memorandum and the related USD(A&T) memorandum dated February 14, 1994, entitled, "Use of Commercial Quality System Standards in the Department of Defense," will fulfill the requirements of the PAT report regarding Alternative Oversight Proposals.

The team recommended that DoD charter a pilot program to test Contractor Self Oversight (CSO). This is a concept of relying on designated contractor representatives in lieu of direct technical surveillance by DoD personnel. I am convinced the idea merits additional consideration. This letter implements the team's recommendations by directing:

(1) The Commander, Defense Contract Management Command, (DCMC) to assume the lead, and serve as the office of primary responsibility for the CSO pilot program, which will identify contractor representatives to monitor contractor operations and products to ensure compliance with contract technical, quality, and systems requirements.

(2) Each Service Acquisition Executive to each identify a minimum of two contractor locations (one with program managed contracts, one without) where CSO concepts will be tested in a pilot program. Contractors must voluntarily agree to participate.

(3) The Defense Logistics Agency's Deputy Director for Acquisition to identify a minimum of two contractor locations where CSO concepts will be tested in a pilot program. Contractors must voluntarily agree to participate.

The purposes of the pilot program will be to: (1) develop procedures for applying CSO; (2) develop criteria for assessing pilot program success/failure, including cost and performance factors; (3) test CSO procedures in a pilot environment; and (4) evaluate the efficacy of CSO. DCMC will plan and execute the pilot program in coordination with the Military Services' and DLA's buying activities, culminating in a fully coordinated recommendation to the USD (Acquisition and Technology) regarding pilot expansion or termination within 2-years.

Accomplishment of these actions should result in more efficient oversight practices and still allow DoD contract administration activities to provide responsive support to their customers. I ask for your total support of these efforts.